

# FDIC State Profile

SUMMER 2003

## Hawaii

**Nonfarm payroll employment in Hawaii expanded 3.3 percent in the year ending January 2003, the highest rate of increase among the 50 states.**

- The Hawaii economy stagnated from 1992 to 1999, expanded toward the end of the U.S. economic expansion, but was hit hard by the 2001 U.S. recession and the fallout from September 11 (see Chart 1). A strong U.S. economy in the late 1990s boosted U.S. mainland travel to Hawaii, helping to overcome weakness in foreign visitor markets.
- Employment increased by 3.6 percent in the leisure and hospitality sector in the year ending January 2003 to a level close to the peak attained in early 2001. Among the major sectors, only professional and business services expanded at a faster pace, 6.9 percent. The state's unemployment rate of 3.6 percent in January 2003 was fifth lowest among U.S. states.

**Hotel revenue per available room (RevPAR) has risen recently in the Honolulu metropolitan statistical area (MSA).**

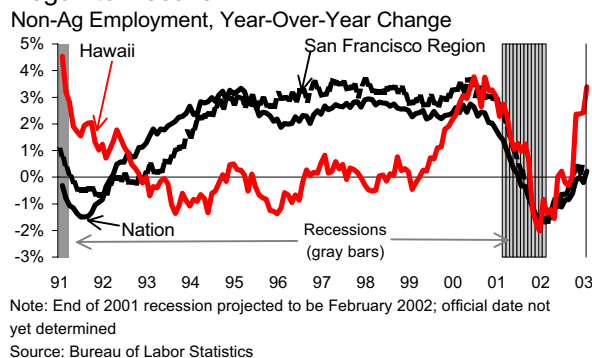
- The increase in RevPAR in the Honolulu MSA represents another measure of improvement in Hawaii's travel sector (see Chart 2). Torto Wheaton Research data indicate that the percentage increase in RevPAR in the Honolulu MSA greatly exceeded the U.S. average during 2002.<sup>1</sup>
- Despite the improvement during the past year, the Honolulu hotel sector's RevPAR level was still 11 percent below the cyclical peak attained in the fourth quarter of 2000.

**U.S. mainland visitor days increased in 2002, while Japanese visitor days fell (see Chart 3).**

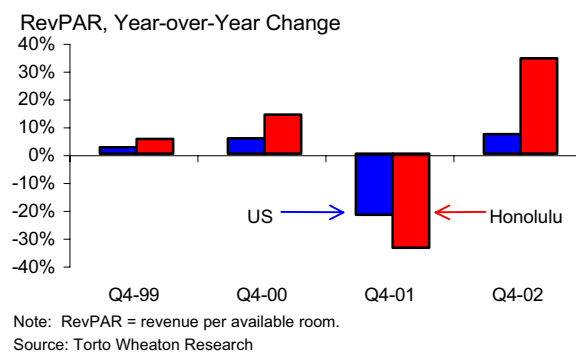
- The number of visitor days of U.S. mainland travelers increased 5 percent in 2002. However, visitor days from two of the most important foreign markets, Japan and Canada, declined 3.9 and 6.8 percent, respectively.
- Japanese visitor days represented 15 percent of the state's total; however, Japanese visitors accounted for 23 percent of total visitor spending. Spending per day per Japanese visitor was estimated at \$260, substantially above the \$150 per day per visitor from the U.S. mainland.

<sup>1</sup> Torto Wheaton Research estimates RevPAR for 54 major U.S. metropolitan areas.

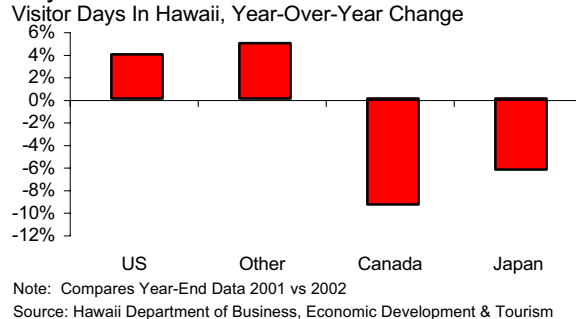
**Chart 1: Payroll Employment in Hawaii Has Begun to Recover**



**Chart 2: Hotel Revenues in the Honolulu Metro Area Increased in 2002**



**Chart 3: US Mainland Visitor Days Increased in 2002 While Japanese and Canadian Visitor Days Decreased**

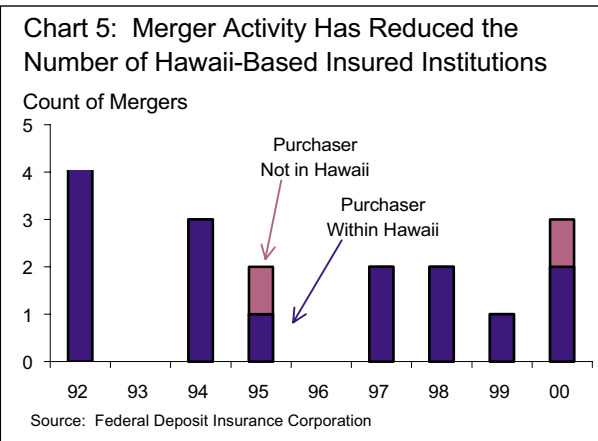
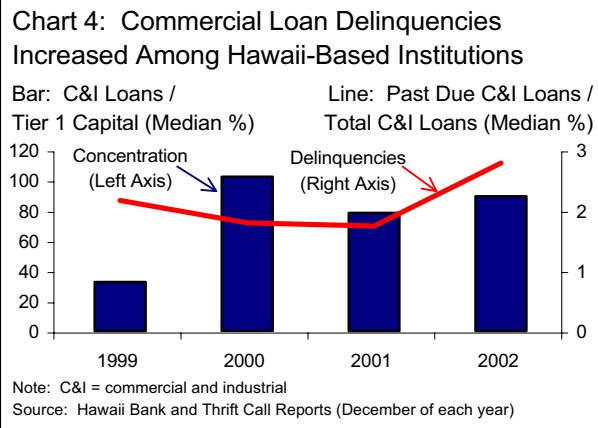


Insured institutions headquartered in Hawaii reported improved performance during 2002; however, vulnerabilities remain.

- Eight of the state's nine insured institutions reported improved return on average asset (ROA) ratios during 2002. During 2001 and 2002, net interest margins (NIMs) generally benefited from declining interest rates and a steepening yield curve, primarily because most of the state's 9 insured institutions are either large, liability-sensitive banks or thrifts specializing in long-term mortgages. Declining overhead ratios, rising noninterest income-to-average asset ratios, and lower provision expense ratios also buoyed ROAs during the period.
- Commercial credit conditions softened during 2002. The median past-due commercial and industrial (C&I) loan ratio increased year-over-year from 1.74 to 2.78 percent (see Chart 4). Despite increases in C&I past-due loan ratios, overall delinquency levels are manageable and below peaks reported in the mid-1990s. The median total past-due loan ratio for insured institutions based in Hawaii declined to 1.50 percent, down from 1.95 at year-end 2001.

**Hawaii has become an increasingly concentrated banking market.**

- Significant merger activity between 1991 and 2002 has reduced the number of separately chartered insured institutions within the state by two-thirds, from 26 to 9 (see Chart 5). Most institutions acquired during the past decade held less than \$1 billion in total assets.
- A few, local competitors dominate the market. As of June 2002, 79 percent of Hawaii branch deposits were controlled by the three largest in-state insured institutions. In contrast, in 1994, these same three institutions reported a 63 percent market share.
- Credit unions provide an important source of competition for the industry. The ratio of credit union memberships-to-population in Hawaii was 57.5 percent as of December 2002, twice the national average and fourth only to D.C., Virginia, and Alaska. The 103 credit unions headquartered within the



state control nearly \$4.9 billion in deposits, equivalent to about 19 percent of the combined deposits of credit unions, commercial banks, and savings institutions as of mid-year 2002. Nationally, credit unions controlled an estimated 9.5 percent of combined deposits as of June 2002.

- Competition from large, in-state insured institutions and credit unions might place downward pressure on loan yields and upward pressure on deposit costs.

## Hawaii at a Glance

<b>General Information</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
Institutions (#)	9	10	10	13	15
Total Assets (in thousands)	30,413,949	29,989,071	30,861,222	30,646,060	30,932,571
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0
<b>Capital</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
Tier 1 Leverage (median)	8.71	8.31	8.47	8.38	8.70
<b>Asset Quality</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
Past-Due and Nonaccrual (median %)	1.50%	1.95%	2.07%	2.42%	3.57%
Past-Due and Nonaccrual > = 5%	1	2	1	3	5
ALLL/Total Loans (median %)	1.87%	1.71%	1.68%	1.75%	1.66%
ALLL/Noncurrent Loans (median multiple)	2.42	1.65	1.09	0.71	0.52
Net Loan Losses/Loans (aggregate)	0.34%	0.71%	0.68%	0.66%	0.58%
<b>Earnings</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
Unprofitable Institutions (#)	1	1	1	3	6
Percent Unprofitable	11.11%	10.00%	10.00%	23.08%	40.00%
Return on Assets (median %)	1.00	0.64	0.81	0.72	0.57
25th Percentile	0.76	0.07	0.55	0.09	-0.33
Net Interest Margin (median %)	4.30%	4.04%	4.31%	4.21%	4.31%
Yield on Earning Assets (median)	6.26%	7.41%	8.15%	7.70%	8.14%
Cost of Funding Earning Assets (median)	1.69%	3.28%	3.84%	3.44%	3.89%
Provisions to Avg. Assets (median)	0.08%	0.16%	0.38%	0.37%	0.39%
Noninterest Income to Avg. Assets (median)	0.94%	0.64%	0.65%	0.58%	0.55%
Overhead to Avg. Assets (median)	2.72%	2.85%	2.78%	3.37%	3.49%
<b>Liquidity/Sensitivity</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
Loans to Deposits (median %)	75.20%	77.80%	85.07%	89.07%	81.11%
Loans to Assets (median %)	56.40%	57.89%	67.83%	68.16%	70.06%
Brokered Deposits (# of Institutions)	0	0	3	6	5
Bro. Deps./Assets (median for above inst.)	na	na	0.20%	0.08%	0.21%
Noncore Funding to Assets (median)	26.51%	32.04%	33.36%	31.88%	29.80%
Core Funding to Assets (median)	57.82%	55.75%	54.30%	57.54%	57.48%
<b>Bank Class</b>	<b>Dec-02</b>	<b>Dec-01</b>	<b>Dec-00</b>	<b>Dec-99</b>	<b>Dec-98</b>
State Nonmember	5	7	7	9	11
National	1	1	1	1	1
State Member	1	0	0	0	0
S&L	0	1	1	2	2
Savings Bank	2	1	1	1	1
Mutually Insured	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>		<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>
Honolulu HI	9		30,413,949	100.00%	100.00%